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SUBJECT: 2007 Ontario Budget Focuses Social Deficit in Election Year

Sensitive But Unclassified - protect accordingly.

¶11. (SBU) SUMMARY: Ontario's 2007 budget, unveiled on March 22, focuses on reducing poverty, increasing services for modest-income families, and reducing property tax increases. It contains little additional funding for infrastructure investments and continues funding programs previously announced by the McGuinty government. Conservative opposition leader John Tory criticized the Liberal government for inefficiency and waste, breaking its promises from the 2004 election campaign, and for not doing enough to help hard working middle class Ontarians. This was a political budget laying the Liberal Party campaign foundation for the October 10 provincial election. END SUMMARY

¶12. (U) On March 22, Ontario Finance Minister Greg Sorbara unveiled the province's 2007 budget. Whereas previous budgets dealt with physical infrastructure, health, and post-secondary programs, Ontario's 2007 budget focuses on poverty reduction and services for modest-income families with children. The centerpieces of the budget are social welfare programs, an Ontario Child Benefit tax credit, and increasing the minimum wage in Ontario from the present C\$8.00 an hour to C\$10.25 an hour, to be phased in over the next three years.

Promoting Investments in Ontario Businesses

¶13. (U) The budget included a cut in the Business Education Tax (BET) to 1.6% for both industrial and commercial properties by 2014, resulting in C\$540 million in savings for businesses. Businesses in northern Ontario will benefit most, with an average 32% reduction in the BET by 2014. The budget also accelerates the elimination of the capital tax, from the scheduled 2012 to January 2010. The BET cut and the capital tax elimination, coupled with the federal phased-in Corporate Income Rate reduction, once fully implemented, means that Ontario manufacturers will enjoy a combined average corporate income tax burden 6% lower than manufacturers in the U.S. Great Lake States. In addition to that advantage, Canadian businesses also do not face the hurdle of funding employee health insurance that U.S. businesses face.

Infrastructure

¶14. (U) Continuing to fund past infrastructure renewal promises, Ontario infrastructure expenditures are expected to total C\$5.9 billion this year, down from C\$6.6 billion in 2006. Ontario will spend C\$1.7 billion to fix or expand highways, mostly in densely populated southern Ontario. In an attempt to reduce congestion, High Occupancy Vehicle (HOV) lanes will be constructed on some 400 series Highways (400 and 427 as well previously announced Highway 417) and the Queen Elizabeth Way. Ontario also plans to widen Highway 10 in Caledon, Highway 401 in Kingston, and Highway 417 in Ottawa. The budget announced a one-time investment of C\$25 million that municipalities across the province may use for their roads.

15. (U) No new border infrastructure funding was announced in this budget. The government commits to continue the previously initiated ReNew Ontario plan, of which C\$800 million is devoted to border infrastructure, including the C\$300 million "Let's Get Windsor-Essex Moving Strategy." The budget asks the federal government to help Ontario and Quebec complete work on their plan to develop a transportation infrastructure system encompassing Ontario and Quebec called the "North America Gateway Strategy."

Environment and Justice

16. (U) Most environmental funding, C\$51 million, is destined for research and development in alternative energies and clean car technologies, given as grants to universities and research centers. The Finance Minister pledges to complement this modest funding with C\$200 million for further climate change initiatives, drawing from the federal trust for clean air and climate change. Ontario plans to spend C\$30 million to restore the polluted shores of the Great Lakes, under the Canada-Ontario Agreement Respecting the Great Lakes Basin Ecosystem.

17. (U) The budget set aside C\$1 million for a one-year pilot project in the town of Stratford to target producers and traffickers of methamphetamine and dismantle their labs. Stratford and the encompassing Perth County in Southern Ontario have a large number of clandestine methamphetamine labs.

18. (U) This is a balanced budget with a modest projected surplus of C\$310 million. Strong revenue gains, despite a very low real GDP growth below 2%, allowed McGuinty to commit to multiple priorities. Own-source revenues have climbed 28% and federal transfers are forecast to jump 13.6%. The government plans to slash program spending growth next year to 2.5%. Though the government is

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spending 5.2% more on health, education, and social assistance spending in the coming year, they have cut spending for all other areas by 8.2%. The Ministry of Finance predicts that Ontario will be able to run surpluses for the next three years.

Critique from the Opposition

19. (U) On March 23 Ontario Progressive Conservative leader John Tory told an Economic Club audience in Toronto that Ontario is slipping on Liberal Premier McGuinty's watch. Tory said the Liberal budget should have included a health tax cut, a long term plan for transit improvements (instead of one-off projects), support for displaced manufacturing workers, a plan to solve municipal finance woes, a "real plan" to help economically depressed northern Ontario, and efforts to achieve greater government efficiency and stop waste (such as paying C\$6 million to change the provincial Lottery logo). Tory cited broken promises made by the government since the 2003 parliamentary campaign such as the promise to close all coal plants and improve air quality in Ontario by 2007. He said Ontario needs to empower entrepreneurs to rebuild Ontario as the economic engine of Canada.

110. (SBU) COMMENT: With the provincial election approaching on October 10, this was a politically important budget, resembling the federal budget in its attempt to please voters. Recent by-election results, in which the Liberals lost to the New Democrats in traditionally Liberal-ridings, undoubtedly contributed to the budget's focus on social programs and the minimum wage increase. Despite a slowdown in growth in the last two quarters and a difficult year for the manufacturing and forestry sectors, the strength of Ontario's revenue stream is notable. If voters do not take the Liberals to task for "broken promises," the Liberals seem to have positioned themselves well for the coming election campaign.
END COMMENT.

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